



County of Los Angeles CHIEF EXECUTIVE OFFICE

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July 9, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE

This memorandum provides an update on the State Budget Conference Committee actions and discusses legislative bills affecting the County.

STATE BUDGET CONFERENCE COMMITTEE ACTIONS

The Conference Committee completed its work on the FY 2008-09 State Budget around 10:00 p.m. last night. The final budget package, which will be included as a set of amendments to AB 1781, the State Budget Bill, was primarily balanced with new tax revenues and a tax amnesty proposal that was approved along party lines.

Revenue Package

The proposed revenue package would raise a total of \$9.7 billion: \$8.2 billion in new tax revenues plus \$1.5 billion from a proposed tax amnesty plan. The largest piece of the package is a reinstatement of the Personal Income Tax (PIT) top brackets. Specifically, the PIT proposal would impose a 10 percent tax rate on the portion of a couple's income above \$321,000 per year and an 11 percent tax rate on the portion of income above \$642,000. It is estimated that this proposal would yield approximately \$5.6 billion and would basically reinstate the PIT bracket structure that was in place in California in the 1990's. The proposed plan would eliminate the annual inflation indexing of State income tax brackets for one year, yielding an estimated \$815 million.

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Net Operating Loss deductions for businesses would be suspended for three years which would yield the State an additional \$1.1 billion. The plan also would include reinstatement of the 9.3 percent franchise tax rate for businesses that was reduced to 8.8 percent in 1997. This element of the plan is estimated to raise \$470 million.

The plan would roll-back a 1997 increase in the non-refundable PIT dependent credit for taxpayers with adjusted gross incomes (AGI) over \$150,000. Under this component, the dependent credit for all PIT taxpayers with AGI greater than \$150,000 would drop from \$294 to \$94 for single taxpayers and \$188 for couples, the same amount currently permitted for a personal exemption. It is estimated that this element would provide the State approximately \$215 million.

It is unlikely that the revenue package, as proposed, will be adopted because Republican members have pledged not to raise taxes as part of the State Budget solution.

Corrections Reform Package

The Conference Committee also took action to adopt a series of corrections reform measures that are expected to reduce caseloads and produce several hundred million dollars in savings to the State. We will work with the affected County departments, the California State Association of Counties, and the Urban Counties Caucus to determine the additional details on the elements of the reform package and will report back.

Estimated Impact on the County

While the Committee's work is finished, the final Conference Committee Report will probably not be available for a few days, as legislative staff continues working on related State Budget bill and trailer bill language in order to complete the final package that will be presented for a vote before the full Assembly and Senate.

Nevertheless, based on a preliminary review of the Conference Committee actions and decisions made by Assembly and Senate Budget Committees earlier in the year, we estimate that the impact of the State Budget would decrease from a projected loss of \$357.5 million from the Governor's May Revision (as reported in the Sacramento Update of May 15, 2008), to an **estimated net loss to the County of \$58.7 million** (which takes into account the \$94.5 million in reductions to the County included in the initial Conference Committee agenda as reported in the Sacramento Update of June 19, 2008). The principle reasons for this fiscal improvement include rejection of the following proposals:

Estimated Impact	State Budget Proposal
\$105.0 million	Proposal to reduce cash assistance payments to CalWORKs recipients.
\$ 48.0 million	Proposal to reduce State participation in In-Home Supportive Services wages.
\$ 35.3 million	Proposal to reduce base and caseload growth funding for Medi-Cal Administration.
\$ 25.0 million	Proposal to reduce Child Welfare Administration.
\$ 24.4 million	Proposal to reduce Safety Net Care Pool Funding/South L.A. Preservation Funds.
\$ 23.7 million	Proposal to reduce the State Maximum Allowance rate to mental health adult and children programs.
\$ 13.7 million	Proposal to eliminate the Cash Assistance Program for Immigrants.

The chart contained in the attachment provides a comparison of the estimated impact of the Governor's Proposed Budget, May Revision, and Conference Committee proposals on the County by program, and it includes the Conference Committee actions in the areas of public safety and social services, as reported in the Sacramento Updates of July 7 and 8, 2008. As indicated above, the estimated impact on the County is based on preliminary information, and may change as we receive additional information and when the final Conference Committee Report is released.

Democratic Leaders Hold Press Conference on the State Budget

Today, Senate President pro Tempore Don Perata and Assembly Speaker Karen Bass held a press conference to urge their Republican colleagues to support revenue increases as part of an overall solution to the State Budget shortfall. Senator Perata stated that the Democrats have made major reductions in expenditures as a necessary precondition for this revenue package, and that they are asking Californians and corporations who have benefited the most from Federal tax cuts to pay a little more during these difficult economic times.

Both Senator Perata and Speaker Bass stressed that Democrats have had to make a number of concessions this year, including not providing cost of living adjustments to Supplemental Security Income recipients, but that additional reductions to health and education are unacceptable. In addition, Senator Perata and Speaker Bass publicly asked their Republican colleagues to put up other revenue alternatives if the revenue plan adopted by the Conference Committee is not acceptable. However, both leaders made it clear that they were unwilling to entertain any further reductions.

Both leaders also indicated that they will be having discussions with Republican leaders over the next seven to 10 days in hopes of resolving the State Budget stalemate, and

that they would be bringing a budget to the Floors of both Houses at the end of that time.

PURSUIT OF COUNTY POSITION ON LEGISLATION

SB 1738 (Steinberg), as amended on July 2, 2008, would require the California Department of Health Care Services (CDHCS) to establish a three-year pilot program to provide intensive multidisciplinary services to 2,500 Medi-Cal beneficiaries defined as frequent users of health care. By July 1, 2009, CDHCS would be required to consult with stakeholders to design the pilot program and to apply for any Medicaid State Plan amendment or Federal waiver approval necessary to implement the program.

The bill defines a frequent user of health care services as an adult who has been treated by an emergency department on five or more occasions in the past 12 months or eight or more occasions in the past 24 months, who would benefit from multidisciplinary services and has two or more of the following risk factors: chronic disease diagnosis, mental illness diagnosis, homelessness, or substance abuse. The program would be required to provide supportive services including individualized, intensive, face-to-face care coordination and case management; money management; transportation; life skills training; peer and recovery support; and vocational and employment assistance. The pilot program would be implemented in at least six hospitals or counties that elect to participate and would be designed to reduce a participating individual's use of hospital emergency departments.

In a recent Assembly Health Committee analysis, a statement from the author indicated that a small percentage of Medi-Cal enrollees are disproportionately driving the costs of the program. Specifically, in 2003, California spent 60 percent of all Medi-Cal expenditures on services for 5 percent of enrollees, many of whom are frequent users of health care. Frequent users tend to have untreated physical conditions, struggle with substance abuse, suffer from mental illness, or experience homelessness. Moreover, individuals often demonstrate three or more of these conditions. The author maintains that frequent users often receive crisis care through multiple visits to hospital emergency rooms for treatment of conditions that would be better addressed with earlier or primary care intervention. The author asserts that early investment in critical coordination and care management services can reduce utilization of more costly acute care, significantly improve the lives of frequent users, and increase the efficiency of the health care delivery system.

The County Department of Health Services (DHS) indicates that, as provider of last resort, the County provides health care services to the population targeted by SB 1738. However, the needs of that population often transcend services provided in a hospital setting. DHS agrees with the author that millions of dollars of savings would result by providing multidisciplinary care to these patients and avoiding costly emergency care

and other acute care services. The Department of Mental Health (DMH), in consultation with DHS, has been able to identify a group of 200 very high cost patients who have multiple health problems in addition to serious mental illness. DMH believes that their costly multiple hospitalizations could be greatly reduced with good case management and coordination. In addition to reduced costs, this approach could result in an improved level of care.

DHS, DMH, and this office are supportive of SB 1738. Consistent with existing County policy to support proposals to reform Medicaid to increase public hospital and health care system flexibility in redirecting Medicaid funds to priority emphasis areas, such as primary and preventive health care, without reducing total available Medicaid funding levels, **our Sacramento advocates will support SB 1738.**

SB 1738 is sponsored by the Corporation for Supportive Housing and supported by the American Federation of State, County and Municipal Employees; AstraZeneca Pharmaceuticals; California Chapter, American College of Emergency Physicians; California Council of Community Mental Health Agencies; California Mental Health Directors Association; California State Association of Counties; County Alcohol and Drug Program Administrators of California; Health Access California; Sacramento County Board of Supervisors; San Diego Housing Commission; Santa Clara County Board of Supervisors; Santa Cruz County Board of Supervisors; and the Western Center on Law and Poverty. There is no known opposition. SB 1738 passed the Assembly Health Committee on June 24, 2008, by a vote of 14 to 0, and now proceeds to the Assembly Appropriations Committee.

STATUS OF COUNTY ADVOCACY LEGISLATION

County-opposed AB 2640 (Huffman), as amended on July 1, 2008, which would make all green waste deposited in a landfill, including that used as Alternative Daily Cover (ADC), subject to the State's waste disposal fee and require the California Integrated Waste Management Board to develop and implement programs that ensure that the amount of green waste currently deposited in landfills in the State annually is 50 percent or less of the amount of green waste disposed or otherwise deposited in landfills during the 2008 calendar year, was amended to clarify that preference for composting facility grants would be provided for compliance with certain State and Federal laws and regulations, but not for compliance with local contracts, agreements or memoranda of understanding.

Currently, local jurisdictions obtain diversion credit for utilizing green waste ADC. This bill would eliminate diversion credit for the use of green waste. AB 2640 eliminates the environmental benefits that green waste ADC provides, jeopardizes local jurisdictions' achievement of the State's 50 percent waste reduction mandate (subjecting agencies of fines of up to \$10,000 per day), and increases costs for local jurisdictions and residents

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for the collection and processing of green waste materials. The Department of Public Works indicates that the amendments do not address these concerns, which were the basis of the County's opposition. As such, we will continue to oppose this measure. AB 2640 is currently in the Senate Appropriations Committee awaiting a hearing date.

We will continue to keep you advised.

WTF:GK
MAL:MR:lm

Attachment

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants

**ESTIMATED IMPACT TO LOS ANGELES COUNTY
FROM THE GOVERNOR'S FY 2008-09 PROPOSED BUDGET**

Programs:	January Budget	May Revision	Conference Committee
<u>Health</u>			
Medi-Cal Provider and Managed Care Rates	(\$12,714,000)	(\$12,714,000)	(\$2,775,000)
Federal Safety Net Care Pool Payments/South L.A. Preservation Fund	(24,393,000)	(24,393,000)	0 ⁽¹⁾
California Healthcare for Indigents Program	0	(5,300,000)	(5,300,000) ⁽¹⁾
Section 1931(b) Medi-Cal	0	(5,000,000)	0 ⁽¹⁾
Medi-Cal Eligibility for Legal Immigrants (PRUCOL and newly qualified)	0	(1,500,000)	0 ⁽¹⁾
<u>Public Health</u>			
HIV/AIDS Treatment and Prevention	(1,000,000)	(1,000,000)	(800,000)
Family and Health Programs	(202,000)	(202,000)	(202,000) ⁽¹⁾
Alcohol and Other Drug Programs	(6,628,000)	(6,628,000)	0 ⁽¹⁾
Proposition 36 Program/Offender Treatment Program	(3,049,000)	(3,049,000)	0 ⁽¹⁾
Other State-Funded Programs	(1,427,000)	(1,427,000)	0 ⁽¹⁾
Children's Medical Services / California Children's Services	(4,500,000)	(4,500,000)	0 ⁽¹⁾
Tuberculosis Control Program	(151,000)	(151,000)	0 ⁽¹⁾
Immunization Program	(827,000)	(827,000)	(81,000)
<u>Mental Health</u>			
State Maximum Allowance Rate Cut (EPSDT & Adult Services)	(23,100,000)	(23,100,000)	0 ⁽¹⁾
Mental Health Managed Care Program	(7,140,000)	(7,140,000)	(1,500,000) ⁽¹⁾
<u>Social Services</u>			
Child Welfare Services Administration	(25,600,000)	(25,000,000)	0 ⁽¹⁾
Foster Care Provider Payments Savings	18,200,000	14,900,000	0 ⁽¹⁾
Adult Protective Services Administration	(2,600,000)	(2,600,000)	0 ⁽¹⁾
Medi-Cal Administration	(50,100,000)	(55,300,000)	(20,000,000)
In-Home Supportive Services (IHSS) Administration	(8,500,000)	(7,600,000)	0
IHSS Program Savings	23,000,000	10,400,000	0 ⁽¹⁾
Reduced State Participation in IHSS Wages	0	(48,600,000)	0 ⁽¹⁾
Food Stamps Administration	-- ⁽²⁾	-- ⁽²⁾	0
CalWORKs Program Reforms	(113,000,000)	(105,000,000)	0 ⁽¹⁾
Cash Assistance Program for Immigrants	0	(13,700,000)	0 ⁽¹⁾
Community Treatment Facilities Differential Rate	0	(1,500,000)	0 ⁽¹⁾
<u>Justice and Public Safety</u>			
Juvenile Probation Camp Funding	(8,000,000)	(8,000,000)	(8,000,000)
Juvenile Justice Crime Prevention Act (JJCPA) Program	(3,300,000)	(3,300,000)	(4,800,000)
Citizens Option for Public Safety (COPS) Program	(1,000,000)	(1,000,000)	(1,100,000)
<u>General Government</u>			
Delay of Third Installment of the Deferred Mandate Payments	0	(14,000,000)	(14,000,000)
February 2008 Presidential Primary Election	(20,000,000)	0	0
Public Library Fund	(190,000)	(190,000)	(95,000)
Military and Veteran Affairs Programs	(29,000)	(29,000)	0
Subventions for Open Space (Williamson Act)	(4,000)	(4,000)	(4,000)
Total	(\$276,254,000)	(\$357,454,000)	(\$58,657,000)

Notes: (1) Item not in Budget Conference Committee (BCC).

(2) The net impact of the Governor's proposed reduction would have been offset by caseload growth funding; however, the BCC rejected this proposal.

This table represents the estimated loss/gain of State funds based upon the Governor's Proposed Budget, May Revision and Conference Committee proposals. It does not reflect the actual impact on the County or a department which may assume a different level of State funding or be able to offset lost revenue.